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SUBJECT: NAMIBIA REEVALUATES CHINESE EXIM LOANS

REF: A. WINDHOEK 302
[1](#)B. WINDHOEK 118

[1](#)1. (SBU) Summary: During President Hu Jintao's state visit to Namibia in 2007, the two governments signed an agreement for a concessionary loan, and a credit line - each valued at approximately USD 130 million. In July, the Namibian government (GRN) announced the suspension of its line of credit from the Export Import Bank of China (ExIm). Namibian officials have expressed concern that conditions that forbid open tendering for projects and equipment purchases financed by ExIm may result in the GRN having to pay highly inflated prices. The GRN officials have not abandoned the line of credit, but have acknowledged they wish to reevaluate the terms of the agreement. While the ExIm credit line arrangement may have fallen out of favor, there is little evidence China-Namibia relations have suffered any significant damage. End Summary.

[1](#)2. (SBU) During Chinese President Hu Jintao's February 2007 visit to Namibia, he reaffirmed his country's special relationship with Namibia and signed five bilateral agreements with Namibian President Hifikepunye Pohamba. Two of the agreements covered project/equipment financing. One established a soft (concessionary) loan facility of RMB one billion (USD 130 million), while another provided the GRN a credit line of an equivalent amount. The Export Import Bank of China (ExIm) administers both financing packages on behalf of the Chinese government. The credit line is essentially an export financing product that permits ExIm to lend the GRN up to 80 percent of the cost of Chinese equipment purchased by Namibia, while the concessionary loan provides a below market financing option for infrastructure projects.

[1](#)3. (SBU) Under both arrangements, the GRN in conjunction with the Chinese government identifies public infrastructure projects and equipment purchases to be financed. The Chinese government then assists with the selection of contractors for the projects. Use of the ExIm financing facilities generally precludes the GRN from procuring goods, works and related services under normal Namibian or international competitive bidding procedures. In several cases, Namibia's National Tender Board has exempted line ministries from publicly advertising tenders for work to be performed that was funded under the concessionary loan and credit lines. By skirting the GRN's normal tender procedures, critics argue that there is no way to ensure that the Chinese companies are both the cheapest and most reliable since the bids are not open to competition or public review.

[1](#)4. (SBU) In late July, news reports indicated that the Namibian government (GRN) would suspend its USD 130 million ExIm credit line. According to Ministry of Finance Permanent Secretary Calle Schlettwein, the recent corruption scandal involving a contract to procure X-ray scanners from Chinese manufacturer Nuctech (reftel A) had pushed the GRN to relook at the Chinese credit line. Speaking at a public policy

forum on August 24, Schlettwein opined that the Nuctech scandal could have been averted if the GRN had refused the conditions of the Chinese ExIm loan and followed its standard competitive tendering procedures. Schlettwein estimated that this government contract, which involved a third party, likely increased the contract price by 30 percent. Schlettwein clarified, however, that the GRN had not abandoned the credit line, but was simply looking at renegotiating the terms.

15. (SBU) Yet another proposed deal has tarnished the luster of Chinese lending. Media outlets revealed that the GRN had declined China's offer to finance the installation of 62 kilometers of new railway in Namibia's north. China proposed the China National Machinery and Equipment Import and Export Corporation (CMEC), financed by ExIM, to perform the construction work. The deal was contingent on the GRN not submitting the rail project out for public tender. The CMEC quote was allegedly four to ten times higher than what other companies had estimated the construction should cost. Negotiations with CMEC to lower the cost were unsatisfactory, and the GRN is now seeking private sector investors.

16. (SBU) Asked at the August 24 public forum whether Chinese assistance comes with too many strings attached, Schlettwein said all donors impose conditions on their aid. The Chinese, he explained, tie their loans to the commitment that Namibia will purchase Chinese equipment, labor and services. The Europeans and United States, on the other hand, link their assistance to assurances that a recipient country's business and trade rules and regulations meet with their approval. The Permanent Secretary cited affirmative action clauses in

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the Namibian procurement process as sticking points for Europe and the United States. As another example, Schlettwein remarked that Europeans have tried to block the imposition of royalty payments on the export of raw materials - a sensitive issue for Namibia as its economy is highly dependent on commodities.

Comment

17. (SBU) While the ExIm credit line may have fallen out of favor, there is no evidence that the GRN has changed its position on Chinese grants, interest free loans, and concessionary loans. Minister of Works and Transport Helmut Angula recently defended the concessionary loan agreement, stating that the terms were quite favorable: four percent interest with a five year grace period. He further stated that other companies (competitors to Chinese companies) had no funds to offer Namibia to finance infrastructure projects. Responding to questions about Chinese intentions in Namibia, Schlettwein insisted the GRN would look for the best financing options available to it, whether the financing comes from China or other countries. In a conversation with Ambassador Mathieu on August 13, the Minister of Trade and Industry Hage Geingob made a similar point.

18. (SBU) GRN officials have long touted the Chinese government as "friends of Namibia" for the assistance it provided to SWAPO (the ruling party) during the struggle against apartheid. While this "friendship" may have led Namibian politicians to turn a blind eye in the past to the conditions attached to Chinese assistance to Namibia, the GRN is perhaps slowly becoming more pragmatic about how it sources international financing in the future. End Comment.
MATHIEU